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April 5, 1977

Persian Gulf

- 
- I. Each of the major oil-producing powers of the Persian Gulf--Iran, Iraq, Saudi Arabia--has a unique view of its role in regional affairs.
- A. The Shah is seeking to extend Iranian influence throughout the Gulf, in order to gain recognition that Iran is the dominant power.
1. Over the past several years, particularly since the British withdrawal from the Gulf in 1971, the Shah has been using his growing military and economic power to assert Iran's interests in the region.
  2. Among the primary goals of his foreign and defense policies is to prevent radical governments from coming to power in the area. He also wants to diminish the influence of external powers, especially the Soviet Union.
- B. Despite Iran's intention to play a leadership role in the Gulf and to secure the oil lanes, it confronts many restraints.

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1. The population of the southern shores of the Gulf is Arab; this means that unilateral Iranian military action there would draw an angry response from the Arab world and invite violent reaction from Iraq.
  2. The Shah would also have to worry about a Soviet response if Iran made a unilateral move against one of its neighbors.
  3. The Shah recognizes his own petroleum industry is highly vulnerable to counter-attack, and he is uncertain about the battle worthiness of his army, untested in multi-brigade operations.
- II. The radical Arab regime in Baghdad has its own view of how the Gulf should develop politically, one that feeds the suspicions of the Shah and the conservative Arabs about Iraqi intentions.
- A. The revolutionary Baathist--Arab Socialist--regime, whose key figures are President Bakr and strongman Saddam Husayn, in recent years has tried to break out of its diplomatic isolation.

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- B. But Baghdad's close ties with Moscow and its thinly disguised contempt for monarchical regimes leaves the Shah and the conservative Arabs under no illusions about Iraq's political orientation.
- C. The Iran-Iraq agreement of March 1975 was intended to resolve long-standing border differences that had produced a number of clashes during the previous year.
  - 1. In return for ending its support of Iraqi Kurdish rebels, Iran got its way over the disputed boundary between the two countries.
  - 2. Despite the facade of good will, however, the attitude of each country toward the other is marked by distrust and competition. Iran and Iraq are natural competitors in the Gulf.
    - a. They are the most populous states; each is rich in natural resources and has a large well-equipped army; and both governments aspire to regional leadership.

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III. Saudi Arabia, dwarfed militarily by Iran and Iraq, is determined to preserve its sphere of influence on the Arab side of the Persian Gulf.

- A. The Saudis would come to the aid of one of the smaller Gulf states if it were threatened by a coup attempt staged by local radicals, or even one sponsored by Iraq.
- B. Non-Arab Iran is Saudi Arabia's natural competitor in the Gulf, but relations are in reasonably good shape at present.
  - 1. The Shah considers Saudi Arabia's present leaders, King Khalid and Prince Fahd, more modern, pragmatic and flexible than King Faysal, who was assassinated in 1975. Both Iran and Saudi Arabia want stability in the Gulf, and both want to curb the mischief-making potential of Iraq and South Yemen.
  - 2. But the Saudis have lingering doubts about Iranian goals in the Gulf--particularly after the Shah leaves the scene.

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IV. The other five states--Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman--

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A. Saudi leadership of the Gulf Arabs is generally acknowledged by the countries involved,

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B. The smaller Gulf Arab states see political and economic advantage in exploiting the rivalry of their more powerful neighbors.

V. Although the ambitions of the major littoral states often bring them into conflict, there are several factors which argue for tolerance, if not total cooperation.

A. Each is economically dependent on one resource, oil. Oil revenues accounted for 99 percent of Saudi Arabia's total export revenues, 98 percent of Iraq's, and 97 percent of Iran's in 1976.

B. Each regime is using oil revenues to finance ambitious development programs, aimed in part at preventing future social dissidence.

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C. To each, the Persian Gulf is the transportation route--for oil, principally--to and from world markets. Attempts to restrict navigation through the Strait of Hormuz could strangle the economy of the entire region.

D. Iran, Saudi Arabia, and the smaller Gulf states all advocate a policy of limiting foreign military presence.

1. The Shah believes Moscow has long-range plans to extend Soviet naval power in the Indian Ocean to the Persian Gulf. Both the Iranian and the Saudi policies opposing the presence of military forces from outside the Gulf are aimed primarily at Moscow.

a. Riyadh's stand is in line with the Kingdom's traditional antipathy for Communism, which it sees as the enemy of Islam.

2. The reluctance of Bahrain to renew the US Navy Middle East Force stationing agreement--scheduled to expire in June--

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illustrates local sensitivity to the  
foreign military presence issue.

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E. Iraq has a more tolerant view of foreign military presence in the area, at least with respect to the Soviet Union.

1. Iraq continues to rely on Soviet military advisers and technicians--an estimated 1,100--to train and equip its armed forces. The Soviets do not have base rights in Iraq, but Baghdad provides limited use of its port facilities to Soviet naval units.

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VI. Sources of conflict--some new, some rooted in tradition--surface from time to time, placing strains on political relations among the major Gulf powers.

A. Saudi Arabia on the one hand and Iraq and Iran on the other--all members of OPEC--are pursuing divergent objectives in setting the price of oil.

1. Riyadh has long been the leader in calling for price moderation. The Saudis, unlike most other OPEC members, have enough oil wealth--in their coffers and under their sands--to regard their oil more in political than in economic terms.

2. Iran and Iraq are pushing for higher prices to finance their ambitious development programs.

B. On several occasions, the Saudis have used quiet pressure to maintain a price freeze or to moderate price increases.

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- C. The clash of interests on oil pricing could spill over into political relations between Iran and Saudi Arabia.
1. The Saudis ignore criticism of their oil price stand from the Iraqis, with whom Riyadh shares few political interests, but they attach some weight to criticism from the Shah, with whom they have a common concern for stability in the Gulf.
  2. The Shah's censure of the Saudi attempt to hold down the price of petroleum has been aimed at Oil Minister Yamani, but the quarrel could become much sharper if the Shah began to direct his attacks toward Prince Fahd or King Khalid.
    - a. The Shah feels deceived by Fahd, whom he has regarded as the driving force in strengthening relations between Tehran and Riyadh.

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3. Iran has adjusted to the oil price split; to date its revenues have not been cut as much as expected, although it has been forced to cut back on some programs, including military.
4. The dispute between the two opposing OPEC factions on the price issue could flare up again at the OPEC meeting in July.
  - a. If the Saudis again insist on a price freeze or a minimal increase, the Shah may see this as a threat to Iran's national interests.
  - b. The Shah's reaction and the degree of strain on Saudi-Iranian relations would to a great extent depend on the level of Iran's oil revenues and the world demand for oil at mid-year.

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VII. Iran's sizable arms purchases and ongoing military programs fuel Arab distrust of the Persians.

A. The Iranian buildup was prompted by the departure of British forces in 1971.

1. Between 1970 and 1976, Iran increased the number of personnel in the military by one-third, doubled the size of its tank force, and more than doubled its inventory of fighter aircraft.

B. The expansion of Iran's arsenal has been a major stimulus to the military buildup in Iraq.

1. A series of border clashes with Iran in 1974 and 1975, and Iranian support for the Kurdish rebels, added urgency to Baghdad's efforts to modernize its forces.

2. Iraq purchased \$1.6 billion worth of military equipment--about half from the Soviet Union and Eastern Europe--to continue expanding its armed forces.

3. We expect military competition between the two countries to continue regardless of improved relations since the end of Kurdish fighting in 1975.

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- C. At present, Iraq's armed forces compare favorably with Iran's, although the Shah's military establishment has received more publicity.
1. While the Iranian ground forces are larger, both countries have nearly equal numbers of men and tanks in combat units.
  2. The Iraqi army is more mobile, while the Iranian artillery force is larger.
  3. The size of the air forces is about equal, but Iran has a clear edge in manpower, training, and quality of equipment.
  4. Iraq's navy is no match for that of Iran, which has become the major naval force in the area since the withdrawal of the British in 1971.
- D. Saudi Arabia also has begun a more modest program to modernize its armed forces, but the Saudis are motivated more by the Arab-Israeli dispute than by their rivalry with Iran.
- E. The Shah has demonstrated a willingness to intervene unilaterally on the Arab side of the Gulf in pursuit of Iranian interests.
1. In 1971, immediately after the British withdrawal from the Gulf, Iranian forces seized three islands near the Strait of Hormuz held by the Gulf — sheikdoms in order

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to deny the islands to terrorists who might want to operate against Iranian shipping.

2. The Shah also has sent troops to Oman, on the other side of the Strait of Hormuz, to assist the Sultan in quelling a decade-long rebellion.

a. At the request of the Sultan, a small Iranian special forces unit was sent to Dhofar Province in 1972 to fight leftist rebels supported by South Yemen. Iranian troop strength in Oman peaked at about 3,800 in 1975, and dropped to about 1,000 in January this year.

b. Iranian military presence on the Arab peninsula has been a source of friction between Iran and the Arab states.

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VIII. ✓ The Shah's aborted effort to gain support for a regional security pact underlines the fact that the objectives of the three major powers are irreconcilable.

A. The Shah has been virtually the only advocate of a comprehensive, multilateral security pact for the Gulf region.

B. The presence of Iraq at last November's Persian Gulf foreign ministers' meeting on regional security assured its failure.

1. Iraqi diplomacy is aimed at blocking any regional formula that limits the movement of ships through the Strait of Hormuz.

2. Iraq believes that Iran could ultimately use such restrictions against Iraq and its patron, the USSR.

C. Iran, supported by Oman, takes the position the Gulf is a closed sea from which foreign military powers must be excluded.

1. In Law of the Sea negotiations, Iran and Oman support the restrictive principle of "innocent passage" for the Strait of Hormuz, while Iraq supports the principle of "free navigation."

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D. The political accord between Iran and Iraq in 1975 encouraged the Shah to believe progress on a regional security pact was possible.

1. Subsequent developments have convinced him that a pact is not now attainable. Bilateral ties, like those developed between Iran and Oman, offer an alternative way of employing Iran's power in the region.

IX. Iraq, even though it has mended its fences diplomatically with its neighbors, is still regarded as the principal threat to regional stability by the area's conservative regimes.

A. Baghdad has not curtailed its support for local radical, subversive groups throughout the Gulf. Its support, mainly financial, is channeled through Iraqi embassies.

B. For the past four years, Iraq has been pressing Kuwait unsuccessfully to accept its terms for a border settlement.

1. Baghdad's main objective is to gain control of two Kuwaiti islands--Warbah and Bubiyan--

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that flank the approaches of Iraq's important Persian Gulf port of Umm Qasr.

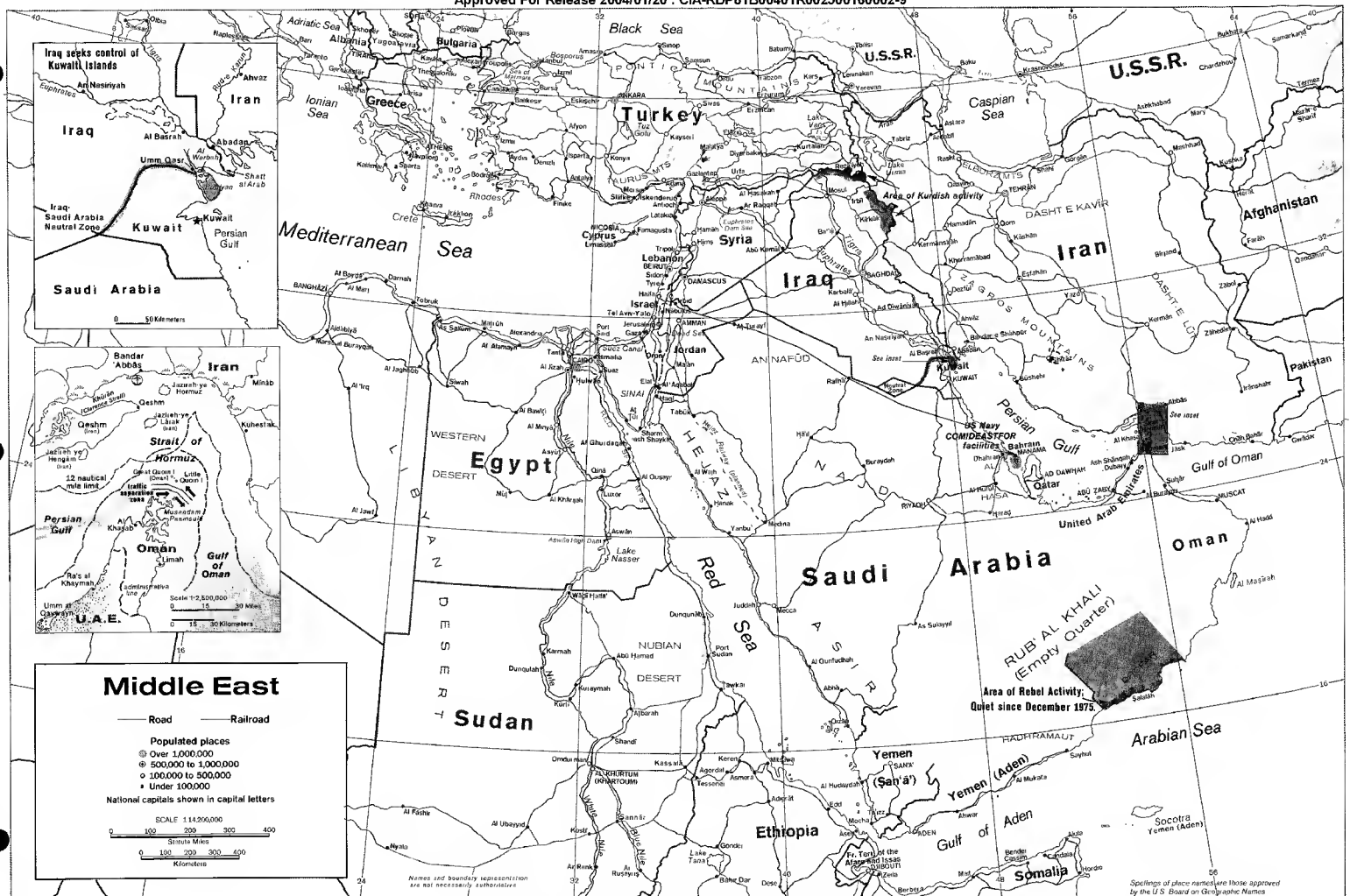
- C. The Iraqis have staged a number of border incidents--the most recent, last fall--to pressure Kuwait into making concessions to Baghdad on the border issue.
  - 1. Baghdad continues to occupy a small strip of Kuwaiti territory on the border seized in 1973.
- D. The border at present is quiet, and we believe Baghdad will not take the risks inherent in openly attacking Kuwait.
  - 1. There is some concern, however, that a renewal of border incidents staged by Iraq could trigger a wider conflict, perhaps with the intervention of Iran on the side of Kuwait.
  - 2. In such a conflict, Saudi Arabia could do little militarily, although it would try to rally Arab opinion against Baghdad.

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Estimated Life of Petroleum Reserves  
at 1976 Level of Production

<u>Country</u>	<u>Years</u>
Kuwait	89
Saudi Arabia	54
Iraq	46
Oman	45
U.A.E.	44
Qatar	34
Iran	29
Bahrain	14

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